

**WAKARUSA WATERSHED DISTRICT NO. 35  
OVERBROOK, KANSAS**

**FINANCIAL STATEMENTS  
For the year ended December 31, 2012**

**And**

**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

**...KL...**

***Karlin & Long, LLC***  
***Certified Public Accountants***

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**WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
OVERBROOK, KANSAS**

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...KL...

**Karlin & Long, LLC**  
*Certified Public Accountants*

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

We have audited the accompanying fund Summary of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash of the Wakarusa Watershed Joint District No. 35 as of and for the year ended December 31, 2012, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide* the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### ***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

### ***Opinion on Regulatory Basis of Accounting***

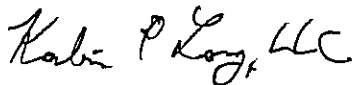
In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the District as of December 31, 2012, and the aggregate receipts and expenditures, budgetary comparisons, for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

### ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming opinion on the fund Summary statement of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1 and 2 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the basic financial statement.

The schedule of expenditures of federal awards and schedule of findings and questioned costs (Schedules 3 and 4 as listed in the table of contents) are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations and are not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC  
Certified Public Accountants

Lenexa, KS  
June 20, 2013

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**  
**SUMMARY OF CASH RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH**

Regulatory Basis  
For the year ended December 31, 2012

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
General	\$ 369,538	\$	\$ 1,804,849	\$ 1,498,984	\$ 675,403	\$	\$ 675,403
Total Reporting Entity	\$ 369,538	\$ 0	\$ 1,804,849	\$ 1,498,984	\$ 675,403	\$ 0	\$ 675,403

Composition of Cash

Checking Accounts	\$ 353,152
Savings Accounts	75,312
Petty Cash	
Certificates of Deposit	246,939
Total Reporting Entity	\$ 675,403

The notes to the financial statements are an integral part of this statement.

# **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies**

#### **Financial Reporting Entity**

Wakarusa Watershed Joint District No. 35, Osage County (the District) is a municipal corporation governed by an elected board. The district is organized under Kansas law as a quasi-municipal corporation. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, departments and offices that are not legally separate. Such legal separate entities are referred to as component units. The District has no component units as of December 31, 2012. The District is accounted for as a governmental fund using the cash basis and budget laws of the State of Kansas. The District's purpose is to protect and defend water interests within its boundary.

The following types of funds comprise the financial activities of the District for the year of 2012:

#### **Regulatory Basis Fund Types**

**General Funds** - To account for all unrestricted resources except those required to be accounted for in another fund.

#### **Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America**

The *Kansas Municipal Audit and Accounting Guide* (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt. Accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

**Use of Estimates**

The preparation of financial statements in compliance with the cash basis and budget laws of the State of Kansas requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For the purposes of the statement of cash flows and summary of cash balances, cash and cash equivalent are defined as demand deposits and certificates of deposit at banks with maturities of three months or less.

**Inventories and Prepaid Expenses**

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

**Income Taxes**

The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.

The District's payroll tax returns for the years ending 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

**Property and Equipment**

Property and equipment are recorded at cost. Improvements and betterments to existing property and equipment are shown as a cash disbursement in accordance with the cash basis method of accounting for the State of Kansas. Expenditures for maintenance and repair which do not extend the life of the applicable assets are charged to expense as incurred.

**Reimbursed Expenses**

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and



# **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

#### **Reimbursed Expenses (Continued)**

3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

#### **Ad Valorem Tax Revenue**

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas are the responsibility of the various counties. The County Appraiser annually determines assessed valuation on January 1<sup>st</sup> and the County Clerk spreads the annual assessment on the tax rolls. Property taxes are levied as of November 1<sup>st</sup> and become a lien on the property as of that date. Payments are due November 1<sup>st</sup> and become delinquent, with penalty, December 21<sup>st</sup>. Payments of 50% are accepted through December 20<sup>th</sup>, with the second 50% then being due on or before May 10<sup>th</sup> of the following year.

The County Treasurer is the tax collection agent for all taxing entities within the county. The initial distribution to the subdivisions, including the District, is on or before January 20<sup>th</sup> of the ensuing year. Additional amounts are distributed on four (4) subsequent dates throughout the calendar year.

#### **Budgetary Information**

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

# **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 – Summary of Significant Accounting Policies (Continued)**

#### **Budgetary Information (Continued)**

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets amendments were noted for the current year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unused budgeted expenditure authority lapses at year end.

Adjustments for Qualifying Budget Credits: Districts may use this line item for any budgeted fund. The adjustment would be a positive amount. All budget adjustments must be authorized by Kansas Statute. Examples include: expenditures of federal grant monies, reimbursements, gifts and donations and receipts authorized by law to be spent as if they were reimbursed expenses.

### **NOTE 2 – Stewardship, Compliance and Accountability**

Funds on deposit at the Kansas State Bank were under secured during the year in violation of K.S.A. 9-1402.

Management is aware of the violation and we noted no other violations of Kansas Statutes for the period under audit.

## **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 3 – Deposits and Investments**

##### **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

##### **Concentration of Credit Risk**

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the District's carrying amount of deposits, including certificates of deposit, was \$ 675,403 and the bank balance was \$ 675,453, of which \$ 496,939 was covered by FDIC insurance.

## **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 3 – Deposits and Investments (Continued)**

##### **Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

#### **NOTE 4 – Defined Benefit Pension Plan**

**Plan Description** – The District participates in the Kansas Public Employees Retirement System (KPERS) a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

**Funding Policy** – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414 (h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

The State of Kansas is required to contribute the statutory required employers share.

## **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 5 – Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. The District does not participate in a public entity risk pool.

#### **NOTE 6 – Compensated Absences**

The District pays vacation time up to 5 days a year for employees. If the employee does not use the vacation time, they are compensated for it at the end of the year. No amounts are carried to a future period.

The district does not offer sick leave. No accrued vacation or sick leave is necessary for these financial statements.

#### **NOTE 7 – Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

#### **NOTE 8 – Subsequent Events Review**

Subsequent events for management's review have been evaluated through June 20, 2013. The date in the prior sentence is the date the financial statements were available to be issued.

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

## Summary of Expenditures - Actual and Budget

## Regulatory Basis

For the year ended December 31, 2012

Funds	Certified Budget	Adjustments for		Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Favorable (Unfavorable)
		Qualifying Budget Credits				
Governmental General	\$ 838,270	\$ 1,557,098	\$	2,395,368	\$ 1,498,984	\$ 896,384

The notes to the financial statements are an integral part of this statement.

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**  
**GENERAL FUND**  
Statement of Cash Receipts and Expenditures - Actual and Budget  
Regulatory Basis  
For the year ended December 31, 2012

	<u>Actual</u>	<u>Budget</u>	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenues			
Ad valorem property tax	\$ 227,375	214,299	\$ 13,076
Delinquent tax	1,964		1,964
Motor vehicle tax	13,813	28,135	(14,322)
RV tax	244	624	(380)
16/20 tax	219	816	(597)
Interest income	1,901	400	1,501
Miscellaneous	2,235		2,235
Reimbursements	1,557,098		1,557,098
Operating transfers			0
	<u>1,804,849</u>	<u>244,274</u>	<u>1,560,575</u>
<b>EXPENDITURES</b>			
Board expenses	4,033	3,000	(1,033)
Salaries and Wages	43,940	77,000	33,060
Mileage reimbursement	8,305		(8,305)
Employee Benefits	6,707		(6,707)
Attorney fees	1,903	6,000	4,097
Rent and Utilities	9,391	10,500	1,109
Publications	600	1,200	600
Office supplies	1,093	1,910	817
Easements and Engineering	42,928	35,000	(7,928)
Construction	1,333,404	598,160	(735,244)
Maintenance materials and labor	40,543	98,000	57,457
Insurance	5,857	7,500	1,643
Membership dues	280		(280)
Miscellaneous			0
Operating transfers			0
Adjustment for qualifying budget credits		<u>1,557,098</u>	<u>1,557,098</u>
Total Expenditures	<u>1,498,984</u>	<u>\$ 2,395,368</u>	<u>\$ 896,384</u>
Receipts Over (Under) Expenditures	305,865		
Unencumbered Cash, Beginning	369,538		
Prior Year Cancelled Encumbrances	<u>0</u>		
Unencumbered Cash, Ending	<u>\$ 675,403</u>		

The notes to the financial statements are an integral part of this statement.

Board of Directors

Wakarusa Watershed Joint District # 35

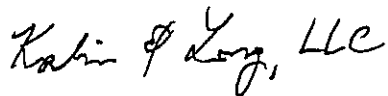
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Karlin & Long, LLC

Certified Public Accountants

Lenexa, Kansas

June 20, 2013



To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Wakarusa Watershed Joint District No. 35, Overbrook, Kansas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

### **Report on Internal Control Over Compliance**

Management of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC  
Certified Public Accountants

Lenexa, Kansas  
June 20, 2013

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Direct programs:			
Watershed Rehabilitation Program	10.916		<u>988,098</u>
Total U.S. Department of Agriculture			988,098
Total expenditures of federal awards			<u>\$ 988,098</u>

See accompanying notes to the schedule of expenditures of federal awards.

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended December 31, 2012

**Summary of Audit Results**

1. The auditors' report expresses a qualified opinion on the financial statements of Wakarusa Watershed Joint District No. 35.
2. No significant deficiencies disclosed during the audit of the financial statements as reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Wakarusa Watershed Joint District No. 35 were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. No Material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for Wakarusa Watershed Joint District No. 35 expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) pg OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:  
Department of Agriculture  
Watershed Rehabilitation Program CFDA No. 10.916
8. The threshold for distinguishing types A and B programs was \$300,000.
9. Wakarusa Watershed Joint District No. 35 was determined to be a high-risk auditee.

**Findings – Financial Statement Audit**

None

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended December 31, 2012

**Findings and Questioned Costs – Major Federal Awards Programs Audit**

Department of Agriculture

Watershed Rehabilitation Program CFDA No. 10.916

No findings of noncompliance or questioned costs were noted.

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2012

**NOTE 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Wakarusa Watershed Joint District No. 35 under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a select portion of the operations of the Wakarusa Watershed Joint District No. 35, it is not intended to and does not present the Summary of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash of the Wakarusa Watershed Joint District No. 35.

**NOTE 2 – Summary of Significant Accounting Policies**

**Regulatory Basis of Accounting** – The regulatory basis of accounting, as used in the preparation of these regulatory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

Wakarusa Watershed Joint District No. 35 has obtained a waiver from generally accepted accounting principles which allows the district to revert to regulatory basis of accounting.

**Departure from Generally Accepted Accounting Principles** – The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and mature principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2012

**NOTE 2 –Summary of Significant Accounting Policies (continued)**

**Departure from Generally Accepted Account Principles (ctd.)** - constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, buildings, and equipment owned by the district are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

# **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 3 – Deposits and Investments**

#### **Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The district has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

#### **Concentration of Credit Risk**

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

#### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the District's carrying amount of deposits, including certificates of deposit, was \$ 675,403 and the bank balance was \$ 675,453, of which \$ 496,939 was covered by FDIC insurance.



**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**  
Overbrook, Kansas

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – Deposits and Investments (Continued)**

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

**NOTE 4 – Defined Benefit Pension Plan**

**Plan Description** – The District participates in the Kansas Public Employees Retirement System (KPERS) a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

**Funding Policy** – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414 (h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates.

The State of Kansas is required to contribute the statutory required employers share.

# **WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Overbrook, Kansas

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 5 – Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years. The District does not participate in a public entity risk pool.

### **NOTE 6 – Compensated Absences**

The District pays vacation time up to 5 days a year for employees. If the employee does not use the vacation time, they are compensated for it at the end of the year. No amounts are carried to a future period.

The district does not offer sick leave. No accrued vacation or sick leave is necessary for these financial statements.

### **NOTE 7 – Other Post Employment Benefits**

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

### **NOTE 8 – Subsequent Events Review**

Subsequent events for management's review have been evaluated through June 20, 2013. The date in the prior sentence is the date the financial statements were available to be issued.

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35**

Summary of Expenditures - Actual and Budget

Regulatory Basis

For the year ended December 31, 2012

Funds	Adjustments for		Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Favorable (Unfavorable)
	Certified Budget	Qualifying Budget Credits			
Governmental General	\$ 838,270	\$ 1,557,098	\$ 2,395,368	\$ 1,498,984	\$ 896,384

The notes to the financial statements are an integral part of this statement.

**WAKARUSA WATERSHED JOINT DISTRICT NO. 35****GENERAL FUND**

## Statement of Cash Receipts and Expenditures - Actual and Budget

Regulatory Basis

For the year ended December 31, 2012

	Actual	Budget	Variance- Favorable (Unfavorable)
<b>CASH RECEIPTS</b>			
Taxes and Shared Revenues			
Ad valorem property tax	\$ 227,375	214,299	\$ 13,076
Delinquent tax	1,964		1,964
Motor vehicle tax	13,813	28,135	(14,322)
RV tax	244	624	(380)
16/20 tax	219	816	(597)
Interest income	1,901	400	1,501
Miscellaneous	2,235		2,235
Reimbursements	1,557,098		1,557,098
Operating transfers			0
<b>Total Cash Receipts</b>	<b>1,804,849</b>	<b>244,274</b>	<b>1,560,575</b>
<b>EXPENDITURES</b>			
Board expenses	4,033	3,000	(1,033)
Salaries and Wages	43,940	77,000	33,060
Mileage reimbursement	8,305		(8,305)
Employee Benefits	6,707		(6,707)
Attorney fees	1,903	6,000	4,097
Rent and Utilities	9,391	10,500	1,109
Publications	600	1,200	600
Office supplies	1,093	1,910	817
Easements and Engineering	42,928	35,000	(7,928)
Construction	1,333,404	598,160	(735,244)
Maintenance materials and labor	40,543	98,000	57,457
Insurance	5,857	7,500	1,643
Membership dues	280		(280)
Miscellaneous			0
Operating transfers			0
Adjustment for qualifying budget credits		1,557,098	1,557,098
<b>Total Expenditures</b>	<b>1,498,984</b>	<b>\$ 2,395,368</b>	<b>\$ 896,384</b>
Receipts Over (Under) Expenditures	305,865		
Unencumbered Cash, Beginning	369,538		
Prior Year Cancelled Encumbrances	0		
<b>Unencumbered Cash, Ending</b>	<b>\$ 675,403</b>		

The notes to the financial statements are an integral part of this statement.

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**Karlin & Long, LLC**  
*Certified Public Accountants*

Board of Directors  
Wakarusa Watershed Joint District # 35  
Overbrook, Kansas 66524

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDIT STANDARDS**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas (the District), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's basic financial statements, and have issued our report thereon dated June 20, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Lawrence, Kansas 66044  
(785) 312-9091

Board of Directors

Wakarusa Watershed Joint District # 35

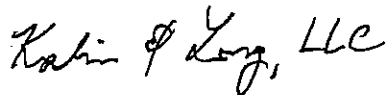
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Karlin & Long, LLC  
Certified Public Accountants

Lenexa, Kansas  
June 20, 2013

...KL...

**Karlin & Long, LLC**  
*Certified Public Accountants*

To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**Report on Compliance for Each Major Federal Program**

We have audited Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Watershed Joint District No. 35's major federal programs for the year ended December 31, 2012. Watershed Joint District No. 35, Overbrook, Kansas's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Wakarusa Watershed Joint District No. 35, Overbrook, Kansas, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

**Report on Internal Control Over Compliance**

Management of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Wakarusa Watershed Joint District No. 35, Overbrook, Kansas's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Karlin & Long, LLC*

Karlin & Long, LLC  
Certified Public Accountants

Lenexa, Kansas  
June 20, 2013

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the year ended December 31, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Direct programs:			
Watershed Rehabilitation Program	10.916		<u>988,098</u>
Total U.S. Dpartment of Agriculture			988,098
Total expenditures of federal awards			<u>\$ 988,098</u>

See accompanying notes to the schedule of expenditures of federal awards.

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended December 31, 2012

**Summary of Audit Results**

1. The auditors' report expresses a qualified opinion on the financial statements of Wakarusa Watershed Joint District No. 35.
2. No significant deficiencies disclosed during the audit of the financial statements as reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Wakarusa Watershed Joint District No. 35 were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. No Material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for Wakarusa Watershed Joint District No. 35 expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) pg OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:  
Department of Agriculture  
Watershed Rehabilitation Program CFDA No. 10.916
8. The threshold for distinguishing types A and B programs was \$300,000.
9. Wakarusa Watershed Joint District No. 35 was determined to be a high-risk auditee.

**Findings – Financial Statement Audit**

None

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended December 31, 2012

**Findings and Questioned Costs – Major Federal Awards Programs Audit**

Department of Agriculture

Watershed Rehabilitation Program CFDA No. 10.916

No findings of noncompliance or questioned costs were noted.

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2012

**NOTE 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Wakarusa Watershed Joint District No. 35 under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a select portion of the operations of the Wakarusa Watershed Joint District No. 35, it is not intended to and does not present the Summary of Regulatory Basis Receipts, Expenditures, and Unencumbered Cash of the Wakarusa Watershed Joint District No. 35.

**NOTE 2 – Summary of Significant Accounting Policies**

**Regulatory Basis of Accounting** – The regulatory basis of accounting, as used in the preparation of these regulatory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

Wakarusa Watershed Joint District No. 35 has obtained a waiver from generally accepted accounting principles which allows the district to revert to regulatory basis of accounting.

**Departure from Generally Accepted Accounting Principles** – The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and mature principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not

WAKARUSA WATERSHED JOINT DISTRICT NO. 35  
Overbrook, Kansas

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2012

**NOTE 2 –Summary of Significant Accounting Policies (continued)**

**Departure from Generally Accepted Account Principles (ctd.)** - constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, buildings, and equipment owned by the district are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

To the Board of Directors  
Wakarusa Watershed Joint District No. 35  
Overbrook Kansas 66542

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Karlin & Long, LLC*

Karlin & Long, LLC  
Certified Public Accountants

Lenexa, Kansas  
June 20, 2013